

Strategic Economic Concepts for the Alaska Fishing & Seafood Industry



Office of Fisheries Development
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FUTURE SECTIONS

Salmon Industry

Groundfish Industry

Support Industry

Government Services

New Fisheries

Introduction

The economic downturn in the Alaska salmon industry has prompted an outpouring of effort from people and organizations statewide working to improve the conditions of the industry. DCED's Office of Fisheries Development (OFD) is one such organization. To clearly articulate our position in this effort and provide clarity on the types of programs we have established or plan to establish, the Office developed this strategic economic development plan. Because of its importance, and because of the great problems it is facing, the Alaska salmon industry is our initial point of focus. However, we feel it is very important for all Alaskans to see the salmon industry in context – as part of a large and diverse fishing and seafood industry.

Consequently, this plan begins by stepping back and establishing a broad perspective on the seafood industry since Statehood. The Statehood movement was an effort that required great fortitude and courage from our founders. They placed particular emphasis on maximizing the value of our fishery resources for Alaskans. In a brief synopsis of how the seafood industry appears today, we note the high degree of ownership and involvement in all aspects of the industry by non-Alaskans, the economic vitality of some sectors like groundfish – even as salmon is struggling, and the overall potential for strong growth in seafood and related industries. As an advocate for the wise commercial use of our Alaska salmon resource, the Office of Fisheries Development believes that efforts can be initiated that will assist this industry to regain its vitality.

Realizing our economic growth potential will require a new, more encompassing perspective on what constitutes the “Alaska fishing industry” – a perspective that includes all U.S. waters off Alaska, the enormous groundfish industry, and all of the required support industry and government management structures. We need to become less parochial and more outward looking. And we need to see the opportunities – not just the negatives – that inevitable change presents.

As with any strategic plan, this is a living document. We actively seek input on the content and look forward to working with all segments of Alaska's seafood industry in the future. In reviewing the problems facing industry, it is important to put our current situation into a more general context. The salmon industry is having significant problems, yet they are not insurmountable. Many other domestic industries have faced similar difficulties. Understanding the nature of the problems facing the salmon industry, and understanding what solutions led to successful turnarounds in other industries, is a key step in realizing the nature of the changes we must initiate. What must be understood is that in order to survive, industries often must change very significantly. Part of this plan will discuss diversification strategies for affected salmon industry participants. And, we must remember that other sectors of the fishing industry are very strong.

The Office of Fisheries Development implements specific programs based on several economic development initiatives. These initiatives, simple applications of economic development theory, include: 1.) industry & economic analysis, 2.) export-led development, 3.) growth industry focus, 4.) cluster-based development, 5.) business environment review, 6.) new product development, 7.) entrepreneur identification, and 8.) networks,

technology and small business development. Efforts undertaken by the OFD, in fact by the entire Division of Community & Business Development's economic development arm, are essentially implementation of these initiatives.

To better understand the nature of the problems within the Alaska salmon industry, we sought advice from a broad spectrum of individuals within the industry. In casting a path for progress, it is important to understand what is occurring in the market. The Office has found the troubles we are facing in the salmon marketplace are the result of systemic changes. In order to be competitive again, the Alaska salmon industry will require sweeping systemic changes of its own. Moreover, we believe that pursuing a high value, high quality strategy for our salmon, in particular our premier salmon species, is a key to maximizing the value of this industry.

Based on the fundamental premise that the Alaska's Constitution calls for "maximizing" the return on our resources, the Office of Fisheries Development focuses its efforts toward projects that put Alaskans in position to achieve the highest and best use from the salmon resource.

The strategic plan breaks down several opportunities for growth. In each of these opportunity areas, we establish a statement, goal and strategies for addressing the areas. The strategy section includes specific projects that fit under appropriate economic development initiatives. The areas of opportunity include: quality, marketing, harvesting, processing, freight and other input costs, capital recruitment, and a diversification strategy.

Chapter 1 - Toward a Fishery Industry Economic Development Policy for the State of Alaska

Echoes of Statehood

Alaska's constitution enjoins us to develop our natural resources – including fish - “for maximum use consistent with the public interest”. The oft cited Sections 2 and 4 of Article VIII call for “utilization, development and conservation of all natural resources belonging to the State...for the maximum benefit of its people” and require that “resources belonging to the State shall be utilized, developed, and maintained on the sustained yield principle...”¹ These broad principles clearly and emphatically embrace both economic exploitation and resource conservation. Forty-three years after Statehood, and less than 2 years into the new millennium, how are we doing? Have we met the framer's expectations?

It is difficult to remember that the fight over Alaska Statehood took place in a pre-oil era. There was general interest in Alaska hydrocarbon resources to be sure. Vast coal deposits and oil seeps in the Arctic had been known for over a century. The Naval Petroleum Reserve had been established in the arctic in 1923. Oil exploration had taken place at Katalla in the early years of the century. The first commercial finds in the Swanson River field on the Kenai were just years old. The Cook Inlet offshore was yet to be developed, and the vast Prudhoe Bay field lay undiscovered. There was as yet no inkling that Alaska would soon become an “oil state”. The principal natural resource concerns of statehood proponents were minerals and fish. And fish generally meant salmon.

How important was salmon? Ernest Gruening referred to “Alaska's major industry, salmon fishing”, and in advocating statehood, stated that “salmon is such a great and important national asset that the Nation cannot risk its depletion through [continued] Territorial control and management.”² The evident need to achieve state management of the salmon resource – both to protect the resource itself and to ensure its full and proper contribution to state economy - was a primary motivation in the debate over Alaska statehood. Gruening likened Alaska's pre-statehood condition to that of the American colonies under King George III, and of our principal industry he wrote:

“Here was Alaska's greatest natural resource. Here was the nation's greatest fishery resource...The result is written in figures that spell tragedy for Alaska's coastal communities whose economy has long depended on fisheries. The tragedy has deepened year after year. So grave has become the plight that the administration found it necessary to declare the fishing

¹ Alaska Constitution, Article VIII Natural Resources, Section 1. Statement of Policy. It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest. Section 2. General Authority. The legislature shall provide for the utilization, development and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people. Section 4. Sustained Yield. Fish, forests, wildlife grasslands and all other replenishable resources belonging to the State shall be utilized, developed, and maintained on the sustained yield principle, subject to preferences among beneficial uses.

² Gruening, Ernest , *The Battle for Alaska Statehood*, University of Alaska Press, 1967, p.33

villages to be disaster areas. It is a disaster caused by colonialism...(that) has preferred to conserve the power and special privileges...of a politically potent absentee industry.”³

Events to Today

Regrettably, statehood has not proved to be a panacea for achieving full development of our fisheries. The hated, company-owned fish traps were banned, but the salmon industry is still dominated by Seattle-based interests. This has remained true despite some radical changes in the industry. Not only have old, established, “pre-statehood” companies like Ocean Beauty remained in Seattle, important Alaska start-ups like NorQuest, Icicle and Seafood Producers Cooperative have relocated their main business offices to the Puget Sound region as their businesses matured. When the wave of Japanese onshore investment in Alaska production facilities happened in the ‘70s, those companies too located their principal US business offices in Seattle, not Alaska.

This is not a “knock” on the processors. A substantial proportion of the salmon fishing fleet is also comprised of non-residents. The same is true of the service sector of the industry, which is also overwhelmingly Puget Sound-based. Be it supplies, insurance, or even industry news – chances are you’ll get it from a Seattle headquartered company.

What is true in the salmon industry was repeated “in spades” as the enormous fisheries in the EEZ off Alaska came under United States control with the Magnuson Act of 1976. The joint-venture era and the “Americanization” which followed were almost wholly a Seattle show.

It is commonly held that Seattle is inherently better situated geographically, and that the enormous infrastructure in Seattle creates an insurmountable business advantage. There is certainly some truth in these ideas, but it is also true that Alaska has not capitalized on its unique locational advantages. In large measure this can be attributed to the enormous – unavoidable - economic influence of oil. Prudhoe Bay changed Alaska’s very conception of wealth, completely changing the funding of State government – leading to the abolition of the State income tax and the near total dependence of government on oil royalty revenues. It also radically altered the demographics of the State. Today most Alaskans have little direct connection to the sea or the coastal economy. Moreover, oil is a relatively uncomplicated industry, with a few large, well-organized players that speak with a generally coherent and focused message. In contrast, fishing has always been a contentious and complicated business.

It is not surprising then that the fishing and seafood industry has taken a backseat in the minds of most Alaskans since the heady days of the Prudhoe Bay oil lease sale – now more than 30 years ago. The result is that many of our fisheries opportunities remain to be realized. Each of the following illustrates this point, and shows how much growth opportunity still exists as we look to the future of a more fully developed, mature Alaskan economy.

³ Ibid., p.88

- Salmon is still dominated by Lower '48 interests: The dynamic new market created by the advent of farmed salmon is leading to restructuring of our catching and processing sectors. This profound – often painful – change also provides an important opportunity to make this industry more Alaskan.
- The NPFMC was created with enormous clout for Washington and Oregon: Can we see a day when our council is constituted like those in all other regions?
- The groundfish and crab industries are overwhelmingly Seattle-based: CDQs are already having an important Alaskan-izing influence. This trend can be accelerated.
- Much of the labor involved in fish processing is seasonal and imported: Putting more Alaskans into processing means transforming the workplace with more high-tech automation, and fewer, but higher paying technician jobs.
- Support industry – supplies, ship repair, vessel and equipment manufacturing, services – is dominated by non-residents: Move the key operators to Alaska, and the support industry will follow.
- Even the intellectual and governance functions of the fishing industry are Seattle dominated: Key to Alaska's maturation as a State is continuing the process of relocating relevant management functions and research enterprise to Alaska.

A very telling illustration of how much room we have in which to grow comes from 2001 CFEC data on fishermen participation and ex-vessel earnings. While Alaskans represent 71.6% of all active fisheries permit holders, their gross fishing earnings represent just 41.4% of the total. The biggest disparity is with Washington fishermen who, while numbering only 17.4% of active permit holders, earn fully 43.9% of total ex-vessel earnings in Alaska fisheries. On average, Washington permit holders gross 4.35 times as much as Alaskans.

Although good data are lacking, we know that the situation is much worse at the processor level. Today, not one of the major “Alaska” processors is actually headquartered in Alaska, nor are any of the major catcher / processor operations. NMFS data indicate that in 2000, fully 92% of the groundfish catch in Alaska waters was taken by non-residents⁴. It is worth noting that even the report detailing these unfortunate statistics was prepared by the NMFS’ “Alaska Fisheries Science Center” - located in Seattle!

Maximizing Economic Potential

These realities represent enormous economic loss to Alaska. They are characteristic of under-development, and proof that - nearly half a century after statehood - Alaska has yet to realize the economic potential of its most important renewable resource. But this situation is not inevitable. While the particulars of Alaska's situation are unique, most frontier States have experienced substantial lead times in developing fully mature economies. Gradual shifts away from dependence on outside involvement – both in management and manufacturing activity - has been a hallmark of all such maturing processes.

A good place to start changing perspectives is with an appreciation of the *overall* relative economic importance of the fish and oil produced annually in Alaska. Comparing export value of oil to the first wholesale value of fish, it is somewhat startling to realize that fish – salmon, groundfish, crab, etc. - is worth at least \$2.2 billion annually while oil is \$5.5 billion.⁵ Since fish is a renewable resource, its long-term value to the state economy is certain to ultimately be greater than that of non-renewable petroleum. Prudhoe Bay production peaked at 2.2 million barrels per day in 1988, had declined to 1.1 million bpd in 1999, and is forecast to be only 408,000 bpd by 2021. Cook Inlet production peaked at 230,000 bpd in 1970, and is less than 30,000 bpd now. Fishery production, however, can be expected to remain within historical norms in perpetuity. Groundfish production is currently capped at 2 million metric tons annually, despite allowable biological catch (ABC) figures indicating that more than half again that amount could be taken annually without adversely impacting the total biomass.

The seafood industry thus represents a huge growth potential for Alaska, even though the principal resources are essentially “fully subscribed”. The first opportunity lies in capturing significant portions of the existing industry that are not Alaska based, along with their considerable non-resident employment. Second are opportunities for greater value-add production prior to export, which could reasonably boost the \$2 billion figure closer to \$3 billion.⁶ Third is capture of related service industry. With oil production on a long-term, inevitable decline, it is certainly opportune for Alaskans to begin focusing once again on our enormous seafood resources.

Iceland – A Model for Alaska

Let's look at an example that should be instructive for Alaska. Just after World War II, Iceland was an isolated, impoverished island. Its small population was emigrating in search of better opportunity. Its tiny GDP was heavily dependent on US / NATO military spending at Keflavik and other installations. The local economy – such as it was – was built on salt fish and wool, mainstays since Viking days. The stark lack of alternatives forced Iceland to begin viewing its fishery resource in terms of extracting every possible economic benefit per ton of harvest. This fundamental mindset propelled Icelandic thinking at every level of government and industry.

The result is that today Iceland not only captures lots of fish. It processes that fish. It employs local labor. It makes up for labor shortages with processing technology designed and built in Iceland – technology that it exports around the world. It designs and builds the catching vessels – from 25' high speed inshore jig boats to 250' catcher processors – and exports vessels and vessel design services. Those boats and ships and their highly trained crews use Icelandic designed, built and serviced equipment – jigging machines, trawl doors, netting,

⁴ “Stock Assessment and Fishery Evaluation Report for the Groundfish Fisheries of the Gulf of Alaska and Bering Sea / Aleutian Island Area: Appendix D Economic Status of the Groundfish Fisheries off Alaska, 2000”; National Marine Fisheries Service, Nov. 15, 2001.

⁵ Figures for fish are ambiguous for many reasons. The Governor has quoted a figure of \$3.4 billion, while some “official” data bases indicated just \$1.1 billion. The “cut off point” is key. \$2.2 billion approximates the first primary processing value. AEIS put the O&G figure at \$4.68 billion in 1999.

⁶ Based on a production value of pollock per metric ton from an efficient groundfish operator, we can estimate the total production value of our pollock resource alone is over \$1.4 billion.

hydraulic equipment, longline systems, electronics, marine safety gear, specialized clothing, etc., etc. Processing companies based in Iceland have satellite reprocessing and marketing facilities in all the principal world seafood markets – Europe, North America and Japan. They export Icelandic seafood in Icelandic owned ocean transport. They have invested heavily in production in other regions in order to take part in marketing products they do not have in Iceland into markets where they are already established. Icelandic companies produce Nile perch from Africa and shrimp from Canada and the Caribbean. Iceland is also a force in all the intellectual aspects of fisheries using its highly educated people not just at home, but exporting expertise around the developing world. In sum, Iceland is a fully developed fishing economy.

As we move forward, increasing our understanding of the path followed by Iceland, and perhaps reaching out to strengthen our ties with this innovative nation, will be very helpful.

What Can DCED Do to Point Alaska on a Path Toward Comprehensive Fisheries Development?

We can begin by always bearing in mind a few basic concepts:

- Understand that “Alaska fisheries” means much more than just those resources that we directly manage; it means all the fisheries in State waters and the adjacent EEZ.
- Extract as much benefit to the State economy as possible from every ton of fish harvested in Alaska waters.
- Always remember that the fishing and seafood industry is much more than harvesting – it is also processing, marketing, industry services, technology, and intellectual enterprise.

These ideas guide the way we deal with all aspects of the industry: primary production (wild harvesting and allowable aquaculture), processing, marketing, support industry and services, fisheries management, and education – all areas in which State policy and programs can play crucial, positive roles.

Getting From First Principles to Defined Policy

“Understand that “Alaska fisheries” means much more than just those resources that we directly manage, it means all the fisheries in State waters and the adjacent EEZ.”

Agencies with specific and challenging mandates are often unable to look at the “big picture”. In the absence of an overall economic development concept for fisheries the State has relied on ADF&G to deal with almost all fisheries matters. But ADF&G has specific, vital management responsibilities and has had to live within very limited budgets. These facts have kept it focused – of necessity – on areas of immediate importance, namely those fisheries under direct State jurisdiction and the Department’s principal resource conservation mandate. The rest of State government has not “picked up the slack” in establishing a broad economic direction in the

Alaska fisheries. DCED has a clear opportunity and obligation to address this over-arching area of State economic management.

“Extract as much benefit to the state economy as possible from every ton of fish harvested in Alaska waters.”

Since Statehood many efforts have been made to improve economic benefit from fisheries. However, we have not truly instituted the operative principle of maximizing economic benefit. Often we have let short-term priorities of particular user groups, or the perceptions of key individuals, set policy direction. The result – over more than 40 years - is a hodge-podge of often conflicting, contradictory, counter-productive State positions - some of which have negatively impacted economic growth. DCED initiative can lead the way in re-energizing policy analysis - establishing a progressive, results oriented development mentality for State government.

“Always remember that the fishing & seafood industry is much more than harvesting – it is also processing, marketing, industry services, technology, and intellectual enterprise.”

The State must not only expand its geographic and jurisdictional horizons when thinking about fisheries development, it must embrace all aspects of the industry when thinking about economic development. This is about much more than just seafood harvesting and primary processing. We need to look to the day when Alaska is fully developed in all aspects of the industry, and is a net exporter of – not just fish – but technology, services and ideas. DCED can and must look at the “big picture” in economic development. In fisheries that means focusing on the identified growth opportunities.

Chapter 2 - Recommendations to the Joint Legislative Salmon Industry Task Force

The Task Force established five subcommittees: Production, Quality, Marketing, Finance and Governance. At the mid-point in its deliberations, the Task Force asked each committee to put forth a number of questions to industry, asking for feedback. Although not directed toward government agencies per se, these questions provide a useful format for the Department of Community & Economic Development (DCED) to generate ideas for Task Force consideration. The following comments, prepared by Fisheries Specialists in DCED's Division of Community & Business Development (DCBD), provide background on a number of issues.⁷ Also included are some specific suggestions for possible Task Force action (denoted by ☑).

Quality

1. What does the Alaska salmon industry need to achieve a higher quality product?

The Fundamentals to Improving Quality have been known for years. Despite this fact, major parts of our salmon industry remain out of step with accepted national and international quality norms – the lack of immediate chilling in many fisheries being perhaps the most important example.

Taking a strictly market approach, and letting competitiveness – or lack thereof – sort out the winners and losers has not proved to be a workable alternative. So far the implementation of quality standards has been left almost entirely to the private sector – that is, with fishermen and processors. Though there are notable exceptions, overall this has not attained the level of success needed to remain competitive. Government must also do its part to protect and enhance the value of this vital public resource for the State's economy. Our Constitution requires it.⁸

Fundamentals for Improving Quality

Action	How Achieved
Careful Handling	<ul style="list-style-type: none"> ▪ Avoid bruising, crushing or puncturing fish on board catcher boats & tenders ▪ Properly design processing lines ▪ Bleed fish when practical
Temperature Control	<ul style="list-style-type: none"> ▪ Immediate chilling at point of harvest ▪ Prompt delivery to processor ▪ Temp. controlled process environment ▪ High quality freezing methods
Vessel, Plant & Product Sanitation	<ul style="list-style-type: none"> ▪ Sanitation standards for vessels, tenders, and buying stations, as for processors ▪ Ensure that standards meet world market expectations, ▪ Promote use of “best practices” and current technology
Manage for Quality	<ul style="list-style-type: none"> ▪ Consider harvesting & processing capability and market needs in management decisions ▪ Make quality a criterion in all management & regulatory decisions

⁷ CBD includes several industry specific business development offices including the Office of Fisheries Development.

⁸ Alaska Constitution, Article VIII Natural Resources, Sec. 2. General Authority. The legislature shall provide for the utilization, development and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.

☆ Carefully crafted regulation can create a climate that promotes needed private sector investment – investment that individual operators cannot initiate on their own absent a public policy framework; and

☆ Sensible public infrastructure investment can also stimulate private sector investment and growth, just as it has in transportation and other industries.

DCBD sees a two-tiered approach to quality improvements: 1.) implementation of government required basic minimum standards, and 2.) fostering of voluntary programs that promote additional higher quality standards.

TIER 1: BASIC MINIMUMS

Government already intervenes to ensure the wholesomeness of seafood through DEC enforced seafood sanitation standards applicable to processing facilities – and Alaska’s leadership in this field demonstrates our ability to succeed in implementing successful, “industry friendly” regulatory regimes.⁹ Now there is considerable discussion of mandatory minimum quality handling standards that would require chilling at the point of capture, and instituting sanitation requirements for both fishing vessels and tenders. At its September 2002 Board of Directors meeting, ASMI adopted Recommendations for Salmon Quality Handling Practices that included these two very important points. ☑ Implementation of ASMI’s recommendations will require new Alaska legislation. DCBD encourages the Task Force to initiate this process. There will doubtless be many debates on fine points, and on funding and timing. However, taking the necessary political steps to establish mandatory quality standards will be one of the most important decisions Alaska can take in planning a recovery in our salmon industry. Having a recovery plan is essential to securing the public and private funding industry needs to implement a turn around. We should note that DCBD will be researching the infrastructural requirements associated with mandatory salmon quality improvement. The Task Force will be able to use the findings of this study to help assess funding for regional needs that require significant quality related infrastructure.

TIER 2 – VOLUNTARY HIGHER QUALITY STANDARDS

There are other progressive programs that the Task Force can support, but which do not require specific legislative action. The Alaska Manufacturer’s Association (AKMA) has developed the Alaska Salmon Quality Program. It provides a quality control model for Alaska salmon production that can be implemented on a voluntary basis by groups of fishermen, tender operators and processors anywhere in the state. The AKMA system includes four major components: 1) a carefully crafted set of handling procedures; 2) a consistent grading standard, including a “premium” quality grade; 3) a certification program that includes third party inspection; and 4) program promotional materials, including an AKMA quality seal, and a market development program. (For more details, please visit the AKMA web site at: <http://www.alaskamfg.net/projects.html>)

⁹ Seeing its future impacts on the Alaska’s seafood industry the State took a leading role in the FDA’s HACCP (Hazards and Critical Control Points) efforts in the draft stage, and guided development of an effective “user friendly” program. HACCP is now not only a US standard, it is at the heart of other world-leading food sanitation programs in the EU and Canada. Few people are aware of Alaska’s important early role in this now international program.

DCBD is already supporting industry participants who subscribe to the Alaska Salmon Quality Program. Three of our regional marketing grants recipients are incorporating the AKMA program into their regional branding and quality initiatives.¹⁰ It is important to note that the AKMA program relies heavily on the voluntary standards originally developed by ASMI.

2. Should the state be involved in creating a quality standard, state quality seal, and a state quality commission?

If the Task Force is considering establishing such a system, we strongly encourage adherence to market-driven standards, and a clearly defined source of revenue to fund implementation of the program. Without adequate oversight reaching downstream to the salmon market, abuse of the seal and associated standards will occur. If a State sponsored program is developed around standards that do not receive adequate enforcement funds, and do not assure the market high quality seafood, it could cause extensive damage to Alaska's seafood image that will take much effort to undo. As noted above, the Alaska Seafood Marketing Institute has already developed strong market-based voluntary quality / handling guidelines. These, in turn, have formed the basis of the AKMA Quality Program. (<http://www.AlaskaSeafood.org/fishingprocessing/quality.htm>).

3. Should the state have a quality education program for industry participants?

Yes. If Tier 1 standards are adopted in regulation (as discussed under question 1 above) it is fair to assume that implementation will include a period during which the standards are promoted as “guidelines” before becoming mandatory. This is standard practice in adopting this sort of rule, and is designed to give industry an adjustment period. This should be a period of intense outreach from the regulatory agencies to the affected industry. ☒ Educational provisions – with adequate resources - should be built into enabling legislation. It should be noted that virtually all the materials required have already been developed. The University's Marine Advisory Program and ASMI have an extensive array of excellent publications on all aspects of seafood quality assurance, and considerable history doing successful outreach and training throughout Alaska and within the seafood trade.

4. What incentives do you need to improve the quality of your harvested and/or processed salmon?

We believe there are essentially three main incentives that should be motivating us to improve quality: simple economic survival, improved prices and earnings, and pride. Elsewhere we discuss some specific financial incentives that the State might want to consider implementing. [Questions 1 and 2 under Finance – dealing with taxation and loan programs] However, the most powerful incentives for industry transcend particular government programs – however valuable they may be. [See Section on Industry Turnarounds.]

¹⁰ The AKMA program was first introduced in the Copper River fishery, and is now part of the “Bristol Bay Wild Salmon” and “Kenai Wild” trademarked regional branding programs.

Ask any harvester or processor if they want to survive. If their answer is “yes” then they need to produce high quality fish. If they already do, then they need to support efforts to improve standards across our industry. Any forward thinking Alaskan who has glimpsed our international competition at work knows that improving our standards is necessary for basic survival, let alone creating a rebound in the fortunes of our salmon industry.

Fishermen and processors alike want improved prices and earnings. These may or may not result in the near term *even if* our major quality problems are corrected. But it is certain that in today’s competitive climate Alaska salmon fishermen and processors cannot expect a return to economic health without successfully addressing quality and convincing the market that we are serious. Talk will not do it – only performance will.

Pride is a great motivator – perhaps every bit as important as profit during lean times. The shipshape boat, the well-kept plant, the carefully handled fish, the expertly crafted product – these are signs that fishermen and plant owners are determined to make it and are committed to their industry. They denote pride of ownership and professionalism. They create a sense of value that carries through to the consumer. Much can be done to foster professionalism without spending a great deal of money. Government must do its part through programs and policies that reward excellence and innovation rather than institutionalize mediocrity and the status quo.

Marketing

Prior to answering these questions, it is important to reflect on two separate issues. First, what are the realities of the marketplace? Before we argue for more public programs or even continuation of existing ones, it is important to understand what we want to accomplish. Second, we need to remind ourselves what marketing really means. The following questions have a “promotional” take on marketing. However, marketing is a multi-disciplinary business function that includes many other areas. To simply focus on promotions may have something to do with the perceived failures of Alaska salmon marketing to date. [For a more detailed discussion of these issues, please refer to The Change Salmon Market Business Model]

1. Do we use existing state salmon promotional structures or do we change the structures? If changed, what changes should be made?

The Alaska Seafood Marketing Institute (ASMI) and DCED’s Division of International Trade and Market Development (ITMD) are successful examples of industry and state government sponsored programs promoting our seafood industry - including salmon. ASMI and ITMD have different but related missions. ASMI’s primary role is generic seafood marketing – both domestically and internationally.¹¹ ITMD focuses on

¹¹ ASMI has had substantial success in promoting Alaska salmon to the enormous domestic food service sector. National account promotions have been very effective in expanding the usage and menu branding of Alaska seafood with target operator accounts. We know that high-profile, leading chains and growth chains in their respective segments are volume drivers and influence other chains. Alaska seafood’s penetration of the foodservice market continues to increase. Within the past few years, ASMI has conducted promotions with almost every sector of the foodservice industry, including these high profile accounts: Hyatt Hotels, Denny’s Restaurants, Marie Callenders, Walt Disney World, Sizzler, TGI Friday’s, Hilton Hotels, Marriot Hotels, Long John Silvers, McCormick & Schmicks, Red Lobster, Landry’s, Country Kitchens, the U.S. Army, and Carrow’s Restaurants. ASMI’s “Fishermen in Stores” program has worked to involve fishermen in marketing – giving them a greater appreciation of consumer concerns, while also being an excellent PR tool for our industry as a whole.

connecting Alaskan sellers with overseas buyers on a business-to-business level in export markets.¹² These are *not* competing roles. Indeed, these functions are complementary and mutually reinforcing. Both are necessary and important. Taken together, they serve to strengthen Alaska's overall efforts to compete in seafood markets.

DCED's Division of Community and Business Development works to foster the general development of the Alaska fishing and seafood industry through its Office of Fisheries Development.¹³ In marketing and promotion, this includes administering grants for salmon marketing and product development. These efforts emphasize innovation and entrepreneurship.

As the State's most visible marketing program, ASMI is frequently blamed for the current market crisis facing our salmon industry. This is unfair. ASMI is not responsible for the decade long recession in Japan, and has no control over the enormous growth of the farmed salmon industry since 1990 – clearly two of the most fundamental market challenges our salmon industry faces. ASMI consistently and eloquently argues for quality improvements in Alaska's seafood industry, but has no regulatory authority to require such changes. With comparatively meager funding, ASMI has, in fact, done a very good job in generic promotion of Alaska seafood.¹⁴ The ASMI trademark is very well known and respected in the seafood trade.¹⁵

Solutions to our current marketing crisis are most likely to be found in private business initiative. Despite ASMI and ITMD programs, the overwhelming responsibility for marketing Alaska seafood is – and should be – in the hands of seafood processors. When Alaska salmon dominated the world market many processors were “order takers” not marketers. While clearly in a “New World Order” when it comes to salmon marketing, many processors have yet to make the transition. [It is equally true that in strong years many fishermen failed to re-invest in their vessels – either paying them down, or installing inexpensive, basic chilling systems. For its part, government has yet to muster the will to galvanize needed changes, many of which have been obvious for years.]

Respecting ASMI management, a couple of matters seem to be generating a fair bit of concern in the industry. One has to do with the size of the ASMI board. We have heard a number of comments to the effect that 25 voting members is simply too costly and cumbersome. However, such size may be necessary to ensure representation of all industry regions and interests.

¹² ITMD's role is to identify new business opportunities, and to match Alaska sellers with buyers in those markets. An example is the success achieved in Korea since 1998. In response to Alaska seafood companies seeking new customers for their fish, ITMD researched several Asian markets and found the high-end hotel and restaurant segment in Korea to be a niche market worth pursuing. Five-star hotels in Seoul and Pusan conducted Alaska seafood promotions that generated more than \$2 million dollars of purchases, most by first-time customers and generated nation-wide media coverage for the quality, taste and healthy attributes of Alaska seafood. Efforts continue, and now include the “food halls” in high-end, trend-setting department stores. Today, Korea is the second largest overseas market for Alaska seafood, behind Japan.

¹³ The OFD works on a wide variety of issues pertinent to increasing the overall contribution of the fishing and seafood industry to Alaska's economy. These comments and recommendations are just an example.

¹⁴ The Norwegian salmon farming industry alone reputedly has a marketing “war chest” in excess of \$40 million annually. Chilean, Scottish and Canadian producers are also very well funded. In contrast, ASMI performs its work – which includes crab, halibut, and other species in addition to salmon – on a fraction of this amount, and with no direct government funding assistance.

¹⁵ Independent research by Datassential Research of Los Angeles showed that seafood items branded “Alaska” or “Alaskan” rank third among all branded food items on menus of the top 500 restaurant chains in the U.S., ranking just behind Certified Angus Beef and Oreos, and ahead of Idaho Potatoes. Building the Alaska seafood brand is the best way to raise the product from a commodity status to a recognized brand.

A second concern has to do with processors that actively trade farmed salmon or have parent companies that have direct investment in farmed salmon operations. There is a sentiment among many fisherman and processors that this is conflict of interest, and that those with any involvement in farmed fish should be barred from sitting on the ASMI Board or acting as members of sub-committees. Critics point out that some board members making decisions about expenditure of ASMI marketing assessments have a direct financial interest in their competition. However, DCBD recognizes that there may be sound business reasons for these processors to be involved in farmed salmon, and that transparency of process is key. A disclosure mechanism could go a long way toward reestablishing trust. After all, conflict of interest disclosure is a standard practice with many public policy boards, and is widely accepted as an important means of maintaining credibility and public confidence.

2. Who or what entity or entities should be paying for the promotion and/or marketing of Alaska's wild salmon?

Is the intent of this question really to ask, "Should the Legislature reinstate general fund appropriations for ASMI?" If so, we would first note that there are a number of other agencies / initiatives that assist in marketing either directly (regional marketing entities, and individual enterprise supported marketing grants) or indirectly through support of stakeholder marketing education, product development, or market research.¹⁶ These programs rely very heavily on federal funds. The State does not make general fund appropriations specifically for seafood marketing purposes.

ASMI is industry funded through substantial contributions from both processors and harvesters. This is a reasonable arrangement. However, a depressed salmon market means a sharp reductions in funding just when needs are greatest. ☒ DCBD recommends that the Task Force support earmarking some of the considerable amounts of federal dollars now available for marketing purposes to ASMI to help offset its current funding shortfall. If the Task Force decides to recommend State general fund appropriations for marketing purposes, DCBD suggests that the funds be linked to a policy of maximizing in-State production values, and to projects which support innovation and quality assurance.

3. Should the state help individual fishermen promote and market their wild salmon? If so, how?

Absolutely. DCBD is attuned to the increased interest in direct marketing. This segment of the processing sector carries tremendous energy and innovation. Let's remember that many of the major American fish processors started out as fishermen. Our future industry leaders could well be among the ranks of today's small-scale direct marketers.

¹⁶ These include DCED, DCBD administered specialty and regional salmon marketing grants; U of A Marine Advisory Program and Fisheries Industrial Technology Center; Alaska Fisheries Development Foundation.

DCBD has a number of efforts underway to support direct marketing. These include existing value-added marketing grants, provision of market and technical information, support for marketing education/seminars, and advice and support in obtaining funding from federal and other sources. We are currently developing a joint program with the University's Marine Advisory Program to provide improved business start-up and technical information for direct marketers, be they fishermen retailing directly from their boats, small-scale catcher processors, or operators of "mini" processing plants onshore.

Taxation is addressed in detail elsewhere, but we would note that non-discriminatory taxation policies are of particular importance to our growing small-scale catcher processor sector, which currently pays higher rates for value added activities on their own catch. This is a specific matter that can be addressed by the Legislature.

Production

1. How can we remove or reduce costs from the harvesting sector in a way that allows regional self-determination?

Most of the suggestions being put forth for reducing fishery operating costs come under the general rubric of "Rationalization." The Task Force has wisely recognized that it cannot and should not be involved in crafting the *specific* rationalization solutions for each region and fishery. What it can do is craft a framework that facilitates efforts by harvesting stakeholders – region by region, fishery by fishery. In this regard, DCBD suggests several guidelines to be used in crafting any enabling legislation required.

An omnibus bill that addresses all aspects of rationalization is unlikely. This is an incremental process, not a one-time event. Passing legislation that deals with or supports some solutions without necessarily fixing everything at once will still be a big plus.¹⁷

Legislation that supports voluntary, self-financing, market-driven rationalization should be preferred over "top down," appropriation-dependent schemes that impose additional mandatory fee-based repayment on those remaining in the industry - and require expensive government administrative structures to implement.¹⁸

Rationalization programs that utilize the existing permit structure, and provide for possible "reversibility," should be favored, at least in the initial stages, because doing so will tend to insulate rationalization efforts from potentially adverse court rulings regarding optimum numbers provisions of limited entry law. There are numerous ways to promote operational consolidation without actually reducing the number of permits.

Every effort must be made to craft rationalization programs that address "capital stuffing." Merely reducing the number of operations is not enough if the incentive remains for each participant to spend more money in the

¹⁷ For example, important steps like authorizing permit stacking or cooperatives might be achievable now, while something more controversial like re-introduction of fish traps might take much longer – or may never – gain the required political support.

¹⁸ The total funding required to accomplish conventional buy back programs in all fisheries that might need them is potentially very large. Even if such programs contain provision for repayment via industry assessment, they run a substantial risk of being perceived as simple bail-outs and could imperil the availability of public funding for infrastructure and other programs. In this sense, programs that are truly industry-funded through voluntary, private investment decisions offer substantial advantages.

race for fish. Programs that support harvest cooperatives, individual quotas, and other mechanisms that focus competition onto value rather than poundage should be preferred.

Beyond fleet rationalization, there have been a number of interesting suggestions regarding regional self-determination that are not limited to the harvesting sector. These include regional marketing associations and/or fishermen's cooperatives;¹⁹ fishery sector management "task forces"; regional port authorities to more effectively invest infrastructure funds; local permit retention efforts; regional branding initiatives; and regional efforts to address transportation improvements, and other matters of common concern.

2. How can we remove or reduce costs and aid the processing sector?

Alaska is now losing processing capacity to low-cost countries like China and Thailand. If Alaska is to maintain its standing as a seafood processor, we must develop incentives to increase investment in Alaska. We should look to other "high cost of production" fisheries economies for ideas on how to remain competitive.²⁰

Are there self-imposed limitations wherein we needlessly give away advantages to our competition in Canada, Europe and Chile? In Alaska, we have typically asked industry to bear almost all the up front costs of development infrastructure – and industry has often insisted on doing so. Individual enterprises, dependent on private, market rate financing often cannot afford to *act* beyond their own individual requirements, even though many industry leaders certainly do *think* about broader solutions to collective problems.

An example of this sort of problem is chilling fish at the point of capture. A number of public sector funding sources are available to fund the large-scale ice production needed – and on much better financing terms than private lenders can provide. What is generally lacking is the organizational structure to use the available capital effectively. This has been largely due to an aversion to public participation in such enterprise. This is beginning to change. The development of multi-user basic infrastructure is already taken for granted in transportation – port facilities, airports, and roads. Alaska's commercial seafood industry depends heavily on these, and other facilities such as public small boat harbors.

The Port of Homer has large-scale public ice infrastructure – the type of production that is common in other North American and European fishing ports.

Discussion is currently under way about creation of a Seafood Industry Park in Ketchikan – the kind of "cluster development" that is ideally supported with long-term, low cost public financing, and which serves several otherwise competitive businesses at once.

Public investment in this sort of basic infrastructure frees private capital to concentrate on things it does best – plant construction, upgrades and maintenance, product development, etc. ☒ Task Force findings could support allocation of some of the \$15 million of EDA administered federal funds earmarked for "Fisheries Impacted Communities" industry over the next 5 years for ice production infrastructure. Infrastructure projects, while

¹⁹ The Seafood Producers Cooperative is a longstanding, successful example.

²⁰ Canada and the Nordic countries all have high production costs, and face many of the same competitive pressures we feel in Alaska. Their strategies for dealing with these issues could be very instructive for Alaska industry leaders and policymakers.

not limited to chilling technology, should emphasize ice because it is crucial to ensuring the success of proposed quality regulations. Mandating chilling at the point of capture will not work without the necessary ice being available to fishermen.

One type of cost reduction we do not want to encourage is exporting Alaskan processing capacity to low cost of production countries. By decreasing costs and increasing efficiencies, in other words increasing productivity, for processing companies in Alaska we can help forestall this loss of Alaskan industrial manufacturing capacity.

Other valuable incentives may include public/private research partnerships for product development, tax incentives for increased value-added processing capacity, training for high technology processing equipment operators, byproduct development incentives, freight rate improvements, and similar innovations.

3. In addition to the removal or reduction of costs, are there statutory/regulatory changes that can help the harvesters and/or the processors?

See discussion under Questions 1 and 2 of the following section on Finance.

Finance

1. Are there better ways in which the state can use existing fishing industry taxes to assist the salmon industry?

After factoring in all fishing industry generated tax revenues, it is clear that Alaska's commercial fishing industry unmistakably pays its way. State fisheries taxes generated \$43.55 million in general fund revenues in Fiscal Year 2001.²¹ In addition, fishermen in regions with active salmon enhancement programs voluntarily self-assessed themselves an additional \$3,643,990 through the Salmon Enhancement Tax to support those programs.²² The Fisheries Business Tax and Fishery Resource Landing Tax are shared revenue sources that accrue 50% to municipalities and boroughs. In 2001, they accounted for three-quarters of all shared taxes and fees, and paid nearly \$17 million to Alaska's coastal communities.

In 1986 the Legislature authorized a Fisheries Business Tax (FBT) credit of up to 50% of the FBT for constructing and improving shore-side processing installations. The program had a 3-year duration, with an additional 3-year carry forward. ☒ A renewed Tax Credit program today could provide a significant boost to private investment, but should be explicitly tied to salmon quality improvements or specific seafood product development initiatives that foster value-add production in Alaska.

☒ The Task Force should address the current Fisheries Business Tax structure. As established, the tax structure places a 50% higher tax rate on canned salmon than on other product forms. This is a '50s era holdover from a time when "canned was king." Given current market conditions for can salmon, it is probably

²¹ Fisheries Business Tax (FBT) \$30,494,634; Fishery Resource Landings Tax (FRLT) \$7,348,739; Seafood Marketing Tax (SMT) paid by fishermen \$2,554,607; and Seafood Marketing Assessment (SMA) paid by processors \$3,156,843.

²² Southeast Alaska commercial dive fishers pay an elective Dive Fishery Management Assessment Tax which generated \$222,794 to cover management costs in their fisheries.

time to reassess the differential tax rate.²³ The FBT on at-sea processing is also higher - 66% higher. Originally aimed at large floating processors based out-of-state, this differential also impacts small-scale, overwhelmingly Alaska-resident catcher / processors. A targeted adjustment of the FBT rate applicable to Direct Market Vessels (DMV) could be a useful stimulant to this emerging sector.²⁴

Of course, any such adjustments will have both fiscal and fairness implications that must be carefully assessed. However, adjustments to State tax statutes are one of the few areas where legislative action can create direct financial incentives to stimulate industry growth and badly needed industry retooling.

Another issue being raised is the requirement to either pre-pay expected FBT, or secure such payment with a bond or property lien. The Department of Revenue has recently waived this requirement for very small producers – easing staff workload and making it easier on producers. If other management schemes can be devised to make the “up front” costs easier to bear for industry, without compromising the security of payment, it could be a boon – particularly for small to medium sized firms.

2. Do current State of Alaska loan practices address the needs of the salmon industry? If not, what changes would you suggest?

Among its several successful loan programs benefiting Alaska resident salmon fishermen, DCED's Division of Investments makes low interest (2%) loans available specifically for Product Quality Improvement on board catcher boats.²⁵ ☑ A similar Processor Product Quality Improvement loan program for *Alaska-resident* processors could have a number of benefits and deserves careful consideration. It could help Alaska owned and operated processing establishments compete successfully with out-of-State or foreign owned companies. It would contribute directly to product quality improvement. It might even provide incentive for companies now headquartered in Seattle to locate in Alaska.

3. Should the State of Alaska provide for the permanent retirement of limited entry permits in your fishery? If salmon limited entry permits were retired in your fishery, what incentives would you suggest for retirement? If funding is needed, who should pay?

Please note our comments under Production, Question 1. The permanent retirement of permits fixes the total number of participants at a lower number and may provoke an adverse “optimum number” ruling that scuttles the rationalization effort. Methods that preserve the number of outstanding permits will obviate this potentially very serious stumbling block to rationalization. While current economic conditions may indicate the need for a reduction in the number of active participants, run rebounds and/or increased unit values in the salmon resource may well indicate the need to return to a higher number of harvesters in the future. A system that

²³ The FBT on H&G (headed and gutted) frozen salmon is 3%, whereas the rate on canned salmon is 4.5%.

²⁴ DEC defines Direct Market Vessels as those under 60' LOA that only process their own catch. DCBD supports tax structures that do not penalize value adding by Direct Market enterprises, but recognizes that specific activities such as roe stripping salmon create difficulties in crafting a tax program of broad applicability.

²⁵ The rate on Product Quality Improvement loans is 3% at inception, dropping to 2% with timely first payment.

preserves existing permit numbers and allows for market driven reversibility of consolidation would provide that kind of flexibility in the harvest sector.

Governance

Hatcheries

1. Would you support legislative development of a State of Alaska hatchery policy and/or performance standards for hatcheries, and/or changes to the state's relationship with all hatchery owners?

We note that Alaska already has hatchery management regulations that are widely regarded as the best anywhere – regulations specifically crafted to ensure protection of wild stocks. Also, the existing enabling legislation regarding hatcheries constitutes State of Alaska hatchery policy. Enhancement programs have been very important economic enterprises in regions that have them, and are generally well supported by fishermen, who contribute substantially to the hatcheries' financial support through Salmon Enhancement Tax assessments.²⁶

That said, there are still some concerns. In the past couple of years a substantial difference has arisen between the price paid by processors to fishermen in the common property fishery and the price paid by processors to hatcheries for cost recovery fish. While there are some valid reasons for this, the price differential – sometimes more than double – threatens to create a rift between fishermen and the hatchery programs that they have strongly supported. Given the important economic contribution of the hatcheries this issue requires thorough analysis before altering the current hatchery management regime. However, it is equally true that given the basic intent of the hatcheries to supplement common property fisheries, fishermen's concerns about this matter need to be addressed thoroughly and in a timely manner.

Education

1. What role should the State play in providing fisheries education (K-12, post-secondary, and voc/tech) in order to promote Alaskans in the fishing and seafood industry?

This is an extremely important issue. In his examination of industrial competitiveness, Michael Porter wrote:

“Education and training constitute perhaps the single greatest long-term leverage point available to all levels of government in upgrading industry. Improving the general education system is an essential priority of government, and a matter of economic and not just social policy. At the same time, however, the general education system is insufficient. ... As important is setting policies that link the educational system to industry and encourage industry's own efforts at training.”²⁷

Alaska is one of the world's most productive fishery economies, yet efforts to promote the seafood industry as a viable occupational option have been minimal. Students of all ages and regions should understand the industries around them and be offered the appropriate educational opportunities that may turn into lifetime

²⁶ The other source of hatchery funding is cost recovery fisheries.

²⁷ Porter, Michael E. “The Competitive Advantage of Nations”, The Free Press, New York, NY, 1990; p. 628

occupations. Seafood industry careers exist not only in harvesting, but also include a vast array of marine related skills, processing technology, food science, transportation, marketing, business administration, sales and marine sciences. Though industry and government do cooperate on some very basic worker training, more could be done to bring industry resources and energy into building educational and research programs within the University system.

☑ The Task Force should encourage development of specific fisheries and seafood industry curricula, and the inclusion of material / modules on these industries in regular course offerings in business, sciences and social studies.

A job skills deficit is particularly evident in coastal Alaskan communities where most of the fisheries infrastructure exists. Despite persistent high local unemployment, processing companies must still import most of their processing workforce – including skilled as well as unskilled workers. Bridging this gap could have major positive ramifications for many rural Alaska communities. ☑ The Task Force should support the development of targeted educational / job training programs aimed at elevating the level of local employment in the seafood processing industry in rural Alaska.

2. Does Alaska's university system adequately meet the research and post secondary educational needs of the Alaska salmon industry? If not, what changes would you suggest?

In recent years, many states in the country have adopted a model of connecting university systems with industry to create powerful centers of R&D and applied commercial use of technology. While the University certainly has programs that work with the Alaska seafood industry (Marine Advisory Program and Kodiak Fishery Industrial Technology Center for examples) much of its focus remains on marine sciences research. While “science” is certainly important for our fishing economy, most of the emphasis is focused on management conservation and not on industry development.

The University of Alaska-Anchorage and many educational institutions have joined with companies around Alaska to form the Alaska Process Industry Careers Consortium (APICC). APICC is an industry led partnership with education to develop the skilled workforce needed for the future of our industries in Alaska. At this point, the industry members are almost exclusively from energy companies. However, it is likely the program would encourage other industries to participate and develop new programs and direction in Alaska.

As discussed under the previous question, industry could play an important role in guiding the development of degree programs and research efforts within the University system. Efforts by educators alone, without the counsel and involvement of industry, are likely to miss the mark. ☑ DCBD encourages the Task Force to foster University / Industry collaborative efforts in commercially applicable fisheries economic development and seafood industry research.

The university's semester-based system makes it difficult for many fishermen to take advantage of continuing education opportunities that could contribute to their business success. The Department of Education's Alaska Vocational Technical Education Center (AVTEC) offers limited courses in shortened modules. Integrating UA

and AVTEC course offerings and promoting cross-utilization of facilities could assist the industry by making combined programs more available to Alaska's fishermen and processors.

3. If you are displaced by changes in the salmon industry, what could the state do to provide retraining and/or alternative employment?

The Department of Labor and Workforce Development already has a range of programs targeting displaced workers. These include the Alaska Workforce Investment Board's programs under the federal Workforce Investment Act. The State also has a multi-agency group working together to resolve seafood processing labor problems.

Agency Oversight

1. Apart from the Board of Fish decisions, are there other state agency regulations that could be changed to benefit Alaska's salmon industry?

Caution should be exercised before eliminating fishery and seafood regulatory standards. Some State regulations may be required to maintain compliance with federal law. Others such as food safety and resource management regulations directly benefit the industry. Alaska does not have an overly burdensome seafood industry regulatory environment. Indeed, as previously noted, there are calls for bolstering some regulations respecting baseline quality assurance, and extending sanitation standards from plants to catcher and tendering vessels. Effective regulatory standards represent important assurances to seafood export markets. They can also help foster needed investment in quality assurance by strengthening industry-wide standards. Quite often regulations that push local companies to improve their products for home markets tend to give those products a leg up in foreign markets.

☒ The Task Force should encourage agency regulatory reviews aimed at maintaining currency with national and international standards, and improving understanding and usability in industry. A good example of the latter was instituting "one stop shopping" for processing permits, which provided applicants a complete list of multi-agency (ADF&G, Labor, DEC and Revenue) requirements and application forms in a single packet available from the Department of Revenue.

2. Do you support Alaska's board of fish process? If changes are necessary, what would you suggest?

Yes, but changes are needed to ease the Board's workload and allow it to concentrate on larger issues. The Board is inundated with great numbers of regulatory proposals. Despite efforts to "clump" similar proposals the Board proposal packets have grown to be enormous documents. Board meetings are extremely long – difficult for members, costly in terms of staff time, and daunting for members of the public, who often must wait for extended periods during meetings to have proposals heard. In an effort to manage this workload the Board has gone to 3-year regulatory cycles. Much of what the Board inevitably finds itself dealing with are "micro management" issues rather than broad allocative concerns or development issues. In the coming years the Board will be an integral part of decision making on important regulatory reform / industry rationalization

issues. Something must be done to ease the administrative workload and allow concentration on these large-scale, vitally important issues. To handle certain issues, the Board may require staff akin to that available to the North Pacific Fishery Management Council, which includes scientists and economists. The Alaska Department of Fish and Game has substantial science resources, but lacks adequate staffing for involved economic analysis. Again, this reflects the lack of a comprehensive fisheries development policy with the State.

ADF&G have begun using a “task force” approach in managing a number of fisheries. This allows many issues to be thrashed out at an industry / agency working level. Often referred to as “sectoral management,” this approach encourages industry involvement and tends to promote compromise. It can lead to fewer proposals coming before the Board, and the Board can rely upon and give great weight to proposals that have input and participation from the affected sector. This will ease the Board’s daunting deliberative load. Sector management has proven quite effective in other jurisdictions. ☒ The Task Force should support ADF&G and the Board in expanding the innovative sectoral approach to fishery management.²⁸

3. Do you support a task force created by the legislature to review the Alaska Board of Fish?

One of the paramount reasons for creating the Board of Fisheries was to provide a needed degree of political insulation between fishery regulation and both legislative and executive branches of government. Absent a compelling reason to do so - and we think no such reason now exists - creating a review task force runs the risk of re-politicizing the Board.

Seafood Commission

1. Should the State of Alaska develop an Alaska Seafood Commission to annually advise the legislature on the needs of the seafood industry?

Leadership certainly *is* needed, and we support the Task Force’s idea to develop a mechanism for ongoing assessment of Alaska’s seafood industry. However, we are not yet convinced either way as to the advisability of an independent Commission. An idea that we have been exploring is to conduct regular performance reviews on a fishery by fishery basis. The idea is embryonic, but the concept is to do TQM-type assessments on a certain set of key performance indicators to see if the sum total of public and private activities in a fishery is meeting reasonable economic expectations.²⁹

An institutionalized approach of this sort might have alerted us to the problems in salmon earlier and triggered responses in a more timely manner. The example of the 4.5% tax on canned salmon is a case in point. A regular periodic review of all inputs into management of the fishery would have highlighted the counter-productive nature of this tax on the canning sector years ago. The higher tax rate on canned was instituted in 1954 – pre-Statehood – when canning was “where its at” money-wise in the salmon industry. Whether this higher tax rate

²⁸ ASMI has also recommended a similar approach in its Quality Recommendations. DCBD notes that sector management has often contributed to significant quality assurance improvements in fisheries where it has been instituted.

²⁹ Total Quality Management

relative to the normal shoreside tax rate of 3% is counter productive as we see more of our frozen head and gut pink salmon moving to offshore processing facilities is an important point to consider.

Economic Development

1. As Alaska's salmon industry changes, what are the economic development issues, community and individual concerns that should be addressed by the State Legislature?

The Task Force has an important opportunity – indeed responsibility – to create a positive atmosphere in which Alaskans can embrace the changes needed to revitalize our salmon industry. That is certainly no easy task when so much “gloom and doom” is heard. However, as we look forward, it is important to remember our basic strengths:

- Biologically our salmon resource is healthy and well managed – the first large-scale fishery in the world to be independently certified “Sustainable”;³⁰
- “Mother Nature” provides us with a fundamental initial cost of production advantage no salmon farmer can match;
- Wild salmon – *when properly handled and processed* - is consistently rated superior in taste to the farmed competition by chefs and consumers alike.
- Experts give wild salmon superior marks for its “heart healthy” higher Omega 3 content, and the absence of antibiotics, colorants and pollutants found in farmed fish; and there is the
- “Alaska mystique” – name recognition and marketing cachet known to consumers around the world.

Moreover, DCBD believes that there are positive signs in the marketplace indicating that wild Alaska salmon can establish a new and better position in the much changed, much larger global salmonid market that has emerged over the past decade. (See “The Changing Salmon Market Business Model”) Success in turning the Alaska salmon industry around will not be a “quick fix”. Nor can it be generated solely through statutory or regulatory changes and an increase in government funding for marketing and quality programs. Change must come from Alaska's communities, businesses and entrepreneurs. It is the role of government to help influence innovative approaches by entities and individuals.

First and foremost government must understand and appreciate the importance of Alaska's commercial fishery resources to the communities and people of the entire State – not just coastal Alaska. As the economic contribution from North Slope oil production continues to decline, Alaska's commercial fishing industry will assume greater and greater relative importance in our economy. And, despite the current economic downturn in salmon, there is enormous room for fisheries economic growth in Alaska. It is critical for Alaska's policy makers to apply all governmental resources towards reestablishing a prosperous and vibrant seafood industry. Increased levels of direct participation and ownership in all aspects of the industry will solidify coastal

³⁰ By the London-based Marine Stewardship Council, jointly sponsored by Unilever and the World Wildlife Fund.

communities from Bristol Bay to Ketchikan, and contribute substantially to business activity in Anchorage – the State’s air transport and service industry hub.

Success in turning the Alaska salmon industry around will not be a “one-time” event. We need a formal blueprint – and a frame of mind – that encourages constant evaluation and change by industry. Success in reducing fleets, but not conquering problems in marketing, quality and product development, will only postpone the demise of our industry. The objective is to develop an Alaskan industry capable of independently responding to changes in the marketplace with minimal reliance on public assistance.

☑ In establishing a framework beyond the Task Force, the Division of Community and Business Development strongly encourages the Legislative Salmon Task Force to set in motion the development of a comprehensive strategic plan that ties together all the aforementioned areas of opportunity. Development of a strategic plan, adopted by all in the industry, will:

- Signal to Alaska public officials, including the Legislature, that State funds will produce a salmon industry that will generate higher incomes for Alaskan fishermen, encourage more Alaskans to become involved in the business of processing and selling fish, and generate millions of dollars of new fishery tax revenues for the State’s economy;
- Signal to Alaskans that the commercial use of our salmon resource can be done in an environmentally sound manner that guarantees the fisheries for generations to come;
- Give support to our Congressional delegation in their efforts to achieve significant public investment;
- Strengthen industry resolve and focus;
- Encourage our markets that we will overcome our challenges; and
- Encourage private investors to re-invest in the Alaska salmon industry.

Through a united effort between communities, industry and State government, Alaska will be in better position to maximize the return on this resource for generations to come.

Summary of Key Recommendations

Quality

What does the Alaska salmon industry need to achieve a higher quality product?

☑ DCBD encourages the Task Force to initiate implementation of ASMI’s quality recommendations in new Alaska legislation – specifically those recommendations dealing with chilling requirements and vessel sanitation.

Should the state have a quality education program for industry participants?

☑ Educational provisions – with adequate resources - should be built into enabling legislation dealing with quality issues.

Marketing

Who or what entity or entities should be paying for the promotion and/or marketing of Alaska's wild salmon?

☒ DCBD recommends that the Task Force support earmarking some of the considerable amounts of federal dollars now available for marketing purposes to ASMI to help offset its current funding shortfall.

Production

How can we remove or reduce costs and aid the processing sector?

☒ Task Force findings could support allocation of some of the \$15 millions of EDA administered federal funds earmarked for "Fisheries Impacted Communities" industry over the next 5 years for ice production infrastructure.

Finance

Are there better ways in which the state can use existing fishing industry taxes to assist the salmon industry?

☒ A renewed Fisheries Business Tax Credit program today could provide a significant boost to private investment, but should be explicitly tied to salmon quality improvements or specific seafood product development initiatives that foster value-add production in Alaska.

☒ The Task Force should address the current Fisheries Business Tax structure.

Do current State of Alaska loan practices address the needs of the salmon industry? If not, what changes would you suggest?

☒ A Processor Product Quality Improvement loan program for Alaska-resident processors could have a number of benefits and deserves careful consideration.

Education

What role should the State play in providing fisheries education (K-12, post-secondary, and voc/tech) in order to promote Alaskans in the fishing and seafood industry?

☒ The Task Force should encourage development of specific fisheries and seafood industry curricula, and the inclusion of material / modules on these industries in regular course offerings in business, sciences and social studies.

☒ The Task Force should support the development of targeted educational / job training programs aimed at elevating the level of local employment in the seafood processing industry in rural Alaska.

Does Alaska's university system adequately meet the research and post secondary educational needs of the Alaska salmon industry? If not, what changes would you suggest?

☒ DCBD encourages the Task Force to foster University / Industry collaborative efforts in commercially applicable fisheries economic development and seafood industry research.

Agency Oversight

Apart from the Board of Fish decisions, are there other state agency regulations that could be changed to benefit Alaska's salmon industry?

☒ The Task Force should encourage agency regulatory reviews aimed at maintaining currency with national and international standards, and improving understanding and usability in industry.

Do you support Alaska's board of fish process? If changes are necessary, what would you suggest?

☒ The Task Force should support ADF&G and the Board in expanding the innovative sectoral approach to fishery management.

Economic Development

As Alaska's salmon industry changes, what are the economic development issues, community and individual concerns that should be addressed by the State Legislature?

☒ In establishing a framework beyond the Task Force, the Division of Community and Business Development strongly encourages the Legislative Salmon Task Force to set in motion the development of a comprehensive strategic plan that ties together all the aforementioned areas of opportunity.

Chapter 3 - The Changing Salmon Market Business Model

A criticism often leveled at the Alaska salmon industry is that it is supply or production driven. Years of prosperity based on controlling the bulk of the world's salmon production left the industry as "order takers" instead of marketers. In years past, buyers asked, "What can I get, and how much?" While that is not the case today, we continue to hear vestiges of this business model when people in industry refer to "selling the pack".

Today's market is radically different. It truly is a buyer's market. Huge quantities of farmed salmon have quenched many a fish buyer's thirst for salmon. Now they ask, "What do you have that meets my needs today?" Figure 3-A illustrates the remarkable growth of farmed salmon. It is now the dominant component in the overall world supply.³¹ World salmonid production now exceeds 2.1 million metric tons – of which very nearly 70% is farmed. This startling realignment in the market - while certainly felt by Alaska fishermen and processors – has yet to be fully internalized in our thinking.

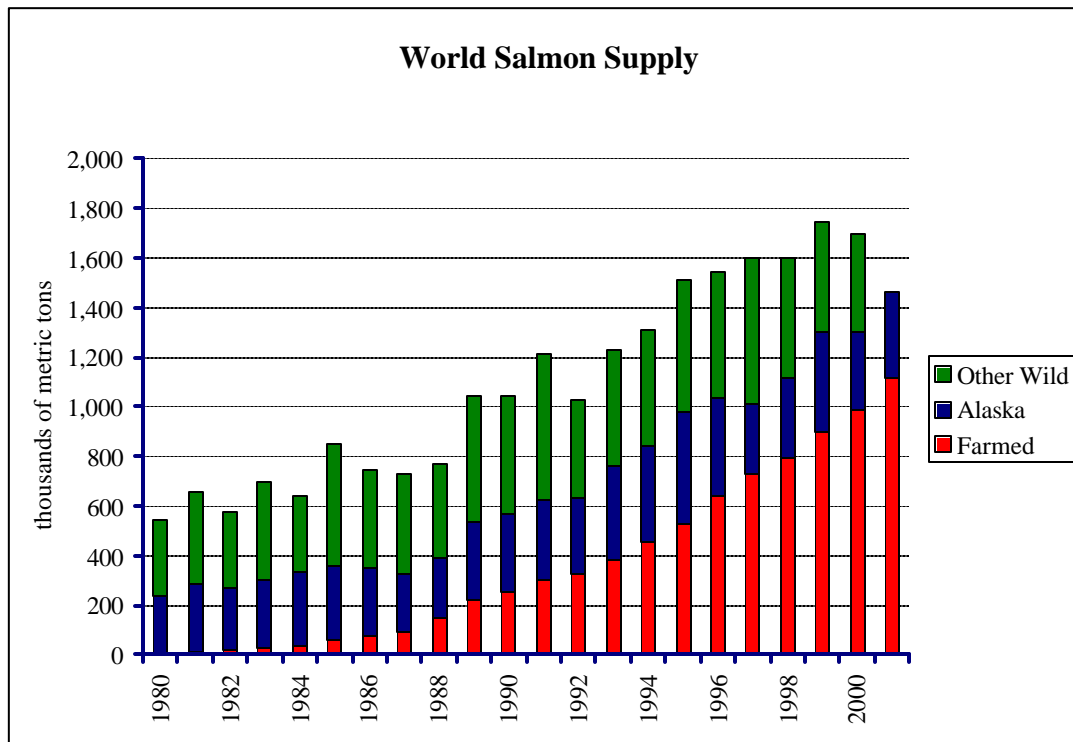


Figure 3-A

Gunnar Knapp, Institute of Social and Economic Research/UAA

³¹ Note that the chart does not include farmed "salmon trout" (*Oncorhynchus mykiss*) – large, red fleshed fish that are effectively interchangeable with farmed salmon in the market. Salmon trout production is estimated at an additional 250,000 to 300,000 metric tons annually. Hence the overall estimate of 2.1 million metric tons for all salmonids.

Many Alaskans ask “How can we get back our lost market share?” We cannot! Our production is limited by the oceans natural carrying capacity. We cannot increase our percentage *share* of the total market, so that should not be our focus.

Others want to stymie farmed salmon’s appeal to the market in hopes that it will somehow just go away. It will not! Farmed salmon is here to stay.

So, what can we do? First and foremost, we must continue to maintain and promote our sustainable resource and its ties to our wonderful, pristine environment. We must also work to level the playing field with informative product labeling, etc. We should also realize that farmed salmon has created a huge new consumer demand for high quality salmon products.

Conventional economic wisdom has it that when you lose controlling market share you become a “price taker” rather than the “price maker”. That’s where we are now. In a commodity salmon market, farmed salmon is the dominant product and will set the price. The only way to modify this equation is to distinguish our wild salmon from farmed.

Happily, consumers and the salmon farmers themselves are doing this for us. People are concerned about environmental degradation caused by farms. They are worried about diseased fish, GMOs, PCBs and antibiotics in farmed salmon feed. ³² Beyond that, they are getting bored with farmed salmon – fish that has gotten progressively cheaper, but also fattier, flabbier and blander. People are ever more interested in natural products. They want to know where their food came from, and who harvested it. They want food that tastes good, but appeals to their sensibilities as well as their taste buds. Reprocessors who turn farmed salmon into a myriad of consumer ready products – lox, patés, ready meals and a host of others – now have renewed interest in wild because consumers are demanding it, and because farmed salmon has become progressively poorer material and is a completely “known” commodity. The growth of new farm salmon markets are slowing with an annual consumption growth rate of 3% in key markets. Reprocessors, brokers and others in the marketplace need something interesting. They need wild.

We need to be clear that “Alaska salmon” is not a single, interchangeable commodity – and act accordingly to properly position our 5 unique

ALASKA SALMON COMPARED TO WORLD SALMON PRODUCTION

**7-Year Avg. Production ('95 – '01) vs. Current Total
World Salmonid Production Est. at 2.1 Million M/T**

SPECIES	Metric Tons	% of Alaska Production	% of World Production
Chinook	4,136	1.14%	.20%
Coho	16,323	4.48%	.78%
Sockeye	103,806	28.49%	4.94%
Chum	77,452	21.26%	3.69%
Pink	162,619	44.63%	7.74%
TOTAL	364,336	100.00%	17.35%

Table 3-A

³² GMOs are “genetically modified organisms”. EU regulators have identified toxic polychlorinated bi-phenyls (PCB) at elevated levels in farmed salmon feed derived from fish meal using North Atlantic pelagic fish such as herring.

species in the new world market. Table 3-A illustrates this point.

☆Alaska chinook comprise scarcely 1/5 of 1% of total world production. Our system is simply failing when this premium fish earns fishermen as little as 25¢ per pound in some fisheries.

☆All three of our top white table cloth species – chinook, coho and sockeye – together comprise less than 6% of all salmon produced – truly “niche” status. All of this product should be going to top end markets?

☆Chum – regarded as a mass market species – is a scant 3.7% of the overall market. It makes the premium salmon caviar which covers virtually the entire cost of production. The flesh is essentially free to the processing line. Surely it can carve out a viable niche in reprocessing food items.

☆Pinks - do not even really compete head to head with farmed. Why is it that 6 oz. cans of pink salmon – produced from 9¢ per pound ex-vessel fish - routinely retail for more than \$1.50, yet tuna, which earns fishermen 45¢ to 50¢ per pound, typically sells in supermarket's for less than \$.75 for a 6 oz. can?

These – and countless other examples – demonstrate that Alaska's old supply driven “sell the pack” business model is a thing of the past. The market is now requiring us to become demand driven. We must place great care on meeting our customer's needs. Care for the customer is a fundamental component of real marketing. A standard, text book definition of marketing might read as follows:

Marketing consists of individual and organizational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion, and pricing of goods, services and ideas.

--- Pride/Ferrill, 1987³³

In provoking us to think about the market, the Alaska Science & Technology Foundation³⁴ offered a series of market-based questions that asked, "What is the nature of the problem?" and "What are the impediments in the current business model?" The Office of Fisheries Development took these questions to a broad spectrum of people in the salmon industry and received thoughtful responses. (See Appendix A to review all comments.) We reviewed those comments against the backdrop of the past decade of diminishing fortunes in our industry and the rise to dominance of farmed salmon. The conclusion is that Alaska can achieve its greatest success if it subscribes to a high quality, high value marketing strategy for its salmon resources – a strategy that clearly differentiates our premium species from farmed at the top of the market, while offering a cost competitive wild, natural alternative in the mass market with our lower priced species.

³³ Pride, William M., and Ferrell, O.C., Marketing Basic Concepts and Decisions, Houghton Mifflin Company, Boston, 1987.

³⁴ Jamie Kenworthy, Executive Director

Chapter 4 - Industry Turnarounds: Does Salmon Qualify?

Defined

Through the two decades that followed World War II, the United States business environment was reasonably steady. However, starting in the 1970's with the emergence of OPEC and the competitive success of Japan and Germany, US businesses began to face greater tests in the global market.

With increasing frequency, businesses, in fact entire industries, commit to "turnarounds." Turnarounds may be simply defined as occurring:

When a firm that has been performing poorly changes its financial course and improves its performance.

Individual business turnarounds are quite common. Examples include Harley Davidson, Sears, and Snapple. In fact, business turnarounds are so prevalent that there is a healthy consulting sector that specializes in turnarounds. These turnaround specialists essentially take over companies on the brink of disaster and work to maximize the value of the business to the benefit of the stakeholders.

Entire industries occasionally require restructuring. When we consider US industries that have undergone turnarounds, we often think about the auto industry (early '80s) and the steel industry (80's and now). Other examples include the lamb meat industry (current), California agriculture producers (late 1960's), and the semiconductor industry (1980's).

A factor in each example is increased competitiveness by foreign industries. Foreign competition, supported by features unachievable within the US, develops business models that out-compete US firms for customers within the US and abroad. Another commonality shared by these examples is the broad social impacts endured from the collapse of an entire industry. Given the impact of these industry failures, some manner of government involvement is a common feature.

Indicators

There are a number of signs present when a business or industry is in trouble:

- domestic products are not cost competitive;
- quality in the foreign products is noticeably better than the domestic products;
- profits and market share fall significantly as buying preference shifts to the foreign product;
- segments of the industry begin to consolidate leading to large layoffs;
- manufacturing capacity begins to migrate out of the country; and
- debt increases and private investors (banks and other institutes) begin to pull back from the industry.

Causes

As mentioned previously, industry failures are typically brought on by the advent of more efficient operations in other countries that render an existing business model obsolete. Overseas advantages may include lower

costs (labor, freight, energy, raw materials), more public incentives, and other forms of protection. This trend towards increased manufacturing capabilities in low cost countries is a facet of “globalization”³⁵ and has proven a tremendous force in our markets today. It is also often an invited outcome of United States’ foreign economic policy and that of the World Trade Organization.

Determinants of what causes an industry to become uncompetitive are numerous and differ among available examples. Some common examples are provided.

- Shifting planning horizons – More focus is placed on short-term gains with less emphasis on investments intended to have long-term benefits. This theory supposes that research and development is an important component of industrial competitiveness.
- Leadership - Long-standing industries are unable to adapt to a changing market environment.
- Production inefficiencies - Industries have maintained inefficient production functions that push costs in excess of foreign competitors.
- Neglecting research and development – Poorly implemented research and development efforts, coupled with diminished research intensity (measured by R&D expenditures as a percentage of total sales), lead to diminished product quality and a reduction of management education and technical expertise.
- Consumer demand - Industries forget to listen to their customers and meet customer needs accordingly.

Solutions

Understanding methods to improve the competitiveness of industries within a region requires insight on what creates the competitive advantage among industry. In Michael Porter’s influential review of competitive advantages, he finds that the most competitive industries in the world appear to form in geographic clusters. Government has an important, albeit limited role in increasing the competitive advantage of industries. Within these clusters, he supports government’s central goal toward the economy is to:

“ ... deploy a nation’s [*in our case Alaska’s*] resources (labor and capital) with high and rising levels of productivity.”³⁶

Long-term productivity growth is the measure by which industries begin to develop advantageous specialization that leads to strength in the global economy. A government can count its efforts as useful if it assists in creating an innovative, competitive industry that does not expect, or want direct subsidies, protectionism, or other non-competitive assistance from government. When we cast this perspective against

³⁵ Globalization refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobility, but also by easy or uncontrolled migration. It is the effective erasure of national boundaries for economic purposes. Presentation by Herman E. Daly entitled, *Globalization Versus Internationalization: Some Implications*, 1999.

³⁶ Porter, Michael E., The Competitive Advantage of Nations, The Free Press, 1990, p. 617.

our own salmon industry, we find that indeed the industry is not as productive as its competitors, nor has it yet to established adequate specialization to set itself apart.

According to Porter, there are four areas that create national competitive advantages:

- 1.) Factor conditions - often called factors of production, relating to items such as human, physical, knowledge, capital and infrastructure resources;
- 2.) Related and supported industries - pertaining to the critical advantage industries develop when located in close proximity to suppliers and related industries;
- 3.) Firm strategy, structure and rivalry - relating to the manner in which firms are created, organized and managed, along with domestic rivalry; and
- 4.) Demand conditions – involving the presence of a sophisticated home market that triggers innovation and creates specialization, creating advantages that carry into international markets.

It is the opinion of Porter that for a country or region to become competitive in an industry, that industry must have strength in these four areas. There are tremendous forces with each area and interaction between areas that tend to foster innovation, which increases productivity.

With Porter's perspective as a backdrop, we can begin to review possible solutions to poor industry performance. A report entitled Securing American's Industrial Strength, put forth by the National Research Council's Board of Science, Technology and Economic Policy, provides a number of actions taken by government and private industry that have varying success. The report indicates that government can have an influence in assisting the competitiveness of an industry. However, by and large, the strongest force in repositioning an industry is through the corrective actions of the private companies. This is the same finding as Porter. The actions below summarize some of the NRC and Porter's recommendations.

Public Actions

- Data collection – To assist in establishing effective public policy, governments need to establish clear measures of performance. These may include:
 - Business-unit level data;
 - Innovation and technology adoption surveys;
 - Linking data sets;
 - Data collection on training, career path and work for technical skill positions; and
 - Exploring public-private partnerships to produce useful information for stakeholders.
- Macroeconomic policies – Macroeconomic policy typically falls within the purview of the federal government and may be defined as actions taken by government to moderate business cycle fluctuations. Business cycle fluctuations may include inflation, currency rates, unemployment, interest rates and other. It has been shown that a stable and supportive macroeconomic environment is important for fostering business development.

- Microeconomic policies – While frequently bound to federal government actions, there are also obvious extensions into State and local government authority. Microeconomic policy may include:
 - Deregulation – Movement towards deregulation may increase innovation through the entry and growth of specialized firms.
 - Antitrust measures – Aside from examples like Microsoft, antitrust policy by presidential administrations since the 1980s has been relatively lenient. Allowing for some collaborative efforts among firms for pre-commercial research may have value although too many mergers create stagnation.
 - Intellectual property protection – More on an international basis, the federal government has worked hard to protect US rights to intellectual property.
 - Trade liberalization – The US has focused on reducing tariffs and other protectionist policies.
 - Taxation – Taxation policy occasionally is used to target certain results. Developing taxation policy that provides firms the opportunity to innovate often come through the form of tax credits, a reduction in capital gains tax over time, or reduced rates for increased production.
 - Pre-competitive technology development– Without focus and adequate funding, public R&D effort absent of industry involvement has not been shown to be overly effective. There must also be a strong level of diffusion of information.
- Incentive-based programs – Incentive-based programs, rather than direct subsidies, are more useful in spurring innovation. Government has a number of tools at its disposal.
- Education – Education that is developed through collaborative efforts between educators and industry will have more relevance to jobs in the workforce.
- Regulation – Developing regulations are positive when they:
 - Push firms to develop innovative, market demanded products,
 - Increase efficiencies,
 - Increase quality of the product, and
 - are clearly understood by industry.
- Procurement – To the extent the government is engaged in procurement of a specific product, it needs to push industry to develop competitive products. Procurement programs that accept whatever industry has to offer do little in the long-run to strengthen the competitiveness of the industry.

Private Actions

- Strategic Repositioning – Repositioning, cited as possibly the most effective mechanism of change, refers to introducing new products and processes, following demand to new markets, and deploying new technologies. Overall action encourages reduced costs and increased quality.

- Product Specialization – Includes divestitures of highly competitive product lines and focusing on a narrow line of products and processes. This may also be viewed as improving your core business by focusing on your competitive advantages.
- Internationalization of operations – This does not necessarily mean movement of manufacturing operations overseas. It may also suggest increased exports, foreign investment and cooperative ventures.
- Manufacturing process improvements and cost reduction – Industry effort to increase efficiencies and reduce costs have obvious positive implications. In many sectors, introduction and application of information technology has assisted in introducing new products, recasting logistics and other processes.
- Technical innovation – Beyond pure research and invention, innovative technology is important when firms have the ability to diffuse technology through human capital and into actual commercialization. Looking for innovation beyond traditional means, outside the core business, may also be important.
- Constant planning - Developing and having at ready alternative plans proves useful in times of industry downturns.
- Leadership - Corporate turnarounds require clarity and control in leadership.
- Understanding customers - Firms that work to meet their customers' needs put themselves in a stronger competitive position.

Alaska Salmon Industry – Is it Time for a Turn Around

To gauge the intensity with which we might approach working with the salmon industry, it may be useful to compare it with other industries that have undergone turnarounds. Acknowledgement of the widespread problems in the industry, and an inability of industry to correct said problems, is having a devastating affect on coastal Alaska.

The previous section on Indicators offered a number of signs to observe to determine if an industry is potentially in need of a turnaround.

Products not cost competitive: The main competitive products against Alaska salmon are farmed salmon and trout, wild pink salmon from other countries, and related protein substitutes. Chilean farmed salmon imports into the US increased an annual average of 26% from 1990 – 2001. What is most alarming about this increase is the change in product form. Until 1994, only 4% of all imports were fillets. That number exploded to 95% in 2002. Fillets represent roughly 45% of the entire fish. If current import numbers are converted to reflect a more comparable product form (dressed – head-on/gutted), the average annual increase becomes 106%.

From 1990 – 2000, the price per kilo for imported farm salmon ranged from \$4.45 to \$5.80. In 2001, despite ever increasing imports of fillets, a higher value product, price fell to \$4.27/kilo. 2002 import data through March had \$3.66/kilo. This equates to a price per pound of \$1.66/lb (\$1.96/lb in 2001) for a boneless skinless fillet. Alaska salmon producers cannot match this incredibly low cost product. Latest price information shows an increase in price through 2002.

Alaska Salmon

Wholesale Boneless Fillet Prices by Species

Year	chinook	chum	coho	pink	sockeye	Chilean Atlantic Salmon
1990	\$ 4.34	\$ 2.86	\$ 3.50	\$ 2.14	\$ 4.60	\$ 2.64
1991	\$ 3.69	\$ 2.30	\$ 3.13	\$ 1.77	\$ 3.91	\$ 2.45
1992	\$ 6.87	\$ 2.24	\$ 2.88	\$ 1.91	\$ 4.76	\$ 2.85
1993	\$ 4.44	\$ 2.08	\$ 3.55	\$ 1.71	\$ 3.29	\$ 2.91
1994	\$ 3.88	\$ 1.67	\$ 3.00	\$ 1.82	\$ 3.71	\$ 2.60
1995	\$ 4.37	\$ 1.82	\$ 2.68	\$ 2.76	\$ 3.84	\$ 2.51
1996	\$ 5.17	\$ 1.36	\$ 1.90	\$ 1.87	\$ 3.71	\$ 2.25
1997	\$ 6.58	\$ 1.58	\$ 2.20	n/a	\$ 3.13	\$ 2.25
1998	\$ 3.94	\$ 1.57	\$ 2.79	n/a	\$ 4.71	\$ 2.44
1999	\$ 6.81	\$ 1.66	\$ 3.57	n/a	\$ 7.42	\$ 2.67
2000	\$ 5.71	\$ 1.54	\$ 3.04	\$ 1.54	\$ 3.59	\$ 2.61
2001	\$ 5.45	\$ 1.53	\$ 2.94	\$ 0.96	\$ 3.90	\$ 1.96

Table 4-A

Information on wholesale price reports listed on the table above provides boneless fillet costs from Alaska producers. Pink prices for fillets are not comparable for Chilean Atlantic salmon and do not make a ready comparison. Chum is also typically not viewed as comparable with farm Atlantic salmon, despite recent reports that low cost Atlantics were taking over some mid-summer chum markets in the US. The premier species, Chinook, coho and sockeye, are well in excess of the price/lb. for Atlantic salmon imports. See Table 4-A.

Alaska pink salmon is not cost competitive if matched against comparable product forms. The bulk of can pink salmon that is produced in Alaska hits the market with the bone and skin on. More and more, Alaska pink salmon is sent to Thailand where it has bones and skin removed prior to canning. In the first nine months of 2002, exports of h&g frozen and fresh

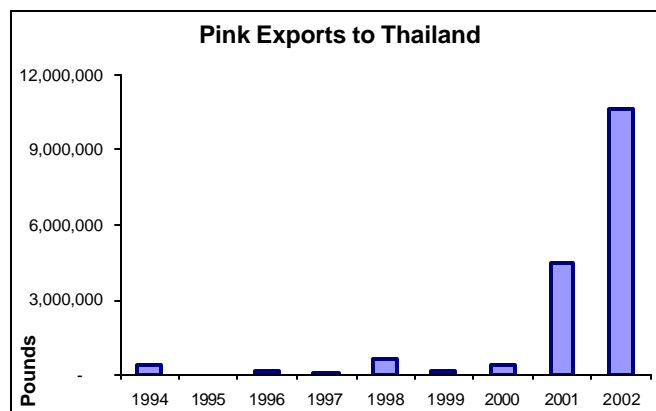


Figure 4-A

pinks to Thailand jumped 140%. Alaska currently exports 5% of its total pink harvest to Thailand.³⁷ Just two years ago that number was 0.24%. See Figure 4-A. There are also more product forms such as pouched boneless/skinless that are produced in Thailand. Tuna, a chief competitor, sells retail for roughly \$0.70 per 7 oz (\$1.60/lb) for a boneless skinless can. Pink salmon, under the same product form, sells for over \$1.60 per 7 oz or \$3.66/lb.

Inferior Quality: Although quality is a subjective standard, there is ample feedback from the market that Alaska salmon continues to fall well short of the fine quality of farmed Atlantic salmon. The process involved in bringing wild salmon to the market is significantly more cumbersome than that of farm salmon.

The quality of a wild salmon in the water far surpasses farm salmon. The process of extracting the fish – often leading to a violent and stressful death for the salmon - does not compare to the method of harvest in a controlled salmon farm where the fish are gently slaughtered.

The great distance from fishing grounds to processors, coupled with the often antiquated cooling equipment aboard Alaska's fishing vessels, increases the bacterial degradation of the flesh. Farm salmon are typically raised in close proximity to the processing facility.

Wild salmon runs are determined by nature and not a production function tied to anticipated market demand. Huge volumes of salmon flood processing facilities during a short period of time, requiring speedy and abbreviated processing of the product, which is often frozen and re-processed later. Farmed salmon is harvested when orders are taken, although incidents of overproduction and moving product to market early because of infection have been reported.

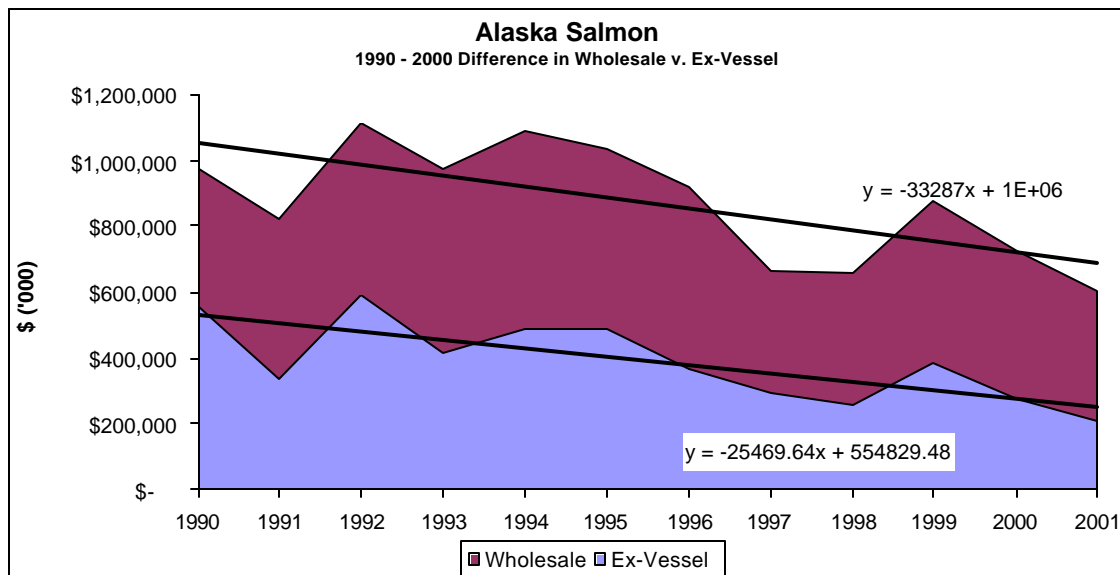
Under the current model for prosecuting, processing and distributing the wild Alaska salmon to the market, it is destined to the status of an inferior product in the eyes of the market.

Imperfect substitutes: This will require further research to determine.

Loss of profits and market share: The Alaska salmon industry is facing declining profits and market share. The first segment of the industry that sustains falling profits is the harvester. Declines in price paid to the harvester fell precipitously in recent years. From 1990 – 1995, the harvesters earned an annual average of just under \$480 million. From 1996 – 2001, that number fell to around \$300 million. 2002 is projected to fall to \$140 million. Declines in volume do not account for the decline in revenues.

³⁷ Raw weight equivalent. Through 3rd Quarter 2002, 10.6 million pounds of H&G pinks were shipped to Thailand. The recovery rate on H&G pinks is 73% (Babbitt, Paust, & Crapo, 1993). This derives a raw weight equivalent of approximately 14.6 million pounds. The estimated pink harvest in 2002 was 299 million pounds.

The same decline is also true for wholesale processors. This group of the industry typically earned over \$1 million in gross revenues from salmon during 1990 – 1995. That number fell to \$740 million from 1996 – 2001. The mark-up between wholesale and harvester price has steadily increased over these periods. However, there was an actual decline in dollars retained by the processors over dollars paid for the raw material.



Market share in traditional markets fell over the last decade. The Japanese market, long dominated by Alaska sockeye, imported 50% less Alaska salmon from 1992 – 2000, despite increasing its actual consumption of salmon and trout. Loss of this traditional market for Alaska salmon has put tremendous pressure on the industry to find new markets. Unfortunately, those markets are saturated with farm salmon.

Industry consolidation: Industry consolidation is most notable on two levels. The first involves the number of harvesters. The number of direct fishing jobs related to salmon fell by 6,545 from 1993 to 2001.³⁸ This loss represents more than 25% of the jobs.

Examples in the last year demonstrate the processing sector is consolidating. Earlier in 2002, one of the largest Alaska owned processors, Cook Inlet Processing, with three facilities was bought out by a larger processor, Ocean Beauty. Two of the Cook Inlet plants on Kodiak Island were closed. A remote cannery on Kodiak Island, Larsen Bay Salmon Packers, was closed and is unlikely to reopen. Several Southeast canneries closed or joint ventured in 2002.

³⁸ Employment information is obtained through the Alaska Commercial Fishing Entry Commission which tracks active salmon permit holders. Determination of crew is based on a running average of 1.4 crew for each permit holder. Alaska law requires the permit holder to be aboard the harvesting vessel at the time of fishing. The total projected jobs in 1993 were 24,233 compared to 2001 with 17,688.

Out migration of manufacturing capacity: Alaska is losing its processing capacity to low-cost countries in Asia. Thailand is developing as a major cannery venue that can produce boneless skinless can and pouch products that compete against tuna. China is used to prepare higher value species for the US, Japanese and European market. The increase in imports to both of these countries is approximately 100% in the last year.

Shrinking of private investment/increase in debt:

Processors have explained that they are losing support from the banking community. Concerns about the security of the industry, particularly can salmon, are causing banks to lower working capital and hold back on further investment. The harvesting sector has long had difficulties obtaining loans, although State backed low interest loans have proven helpful for participants.

Exports of US Salmon to Thailand

	<i>Kilos</i>	<i>Dollars</i>	<i>\$/k</i>	<i>% increase in volume</i>
1991	260,840	571,429	\$ 2.19	
1992	286,401	498,012	\$ 1.74	10%
1993	374,766	951,849	\$ 2.54	31%
1994	212,651	283,726	\$ 1.33	-43%
1995	12,605	50,035	\$ 3.97	-94%
1996	114,916	326,165	\$ 2.84	812%
1997	59,083	120,309	\$ 2.04	-49%
1998	312,097	674,563	\$ 2.16	428%
1999	851,920	2,438,823	\$ 2.86	173%
2000	2,100,374	8,451,725	\$ 4.02	147%
2001	6,694,429	16,677,425	\$ 2.49	219%

Exports of US Salmon to China

	<i>Kilos</i>	<i>Dollars</i>	<i>\$/k</i>	<i>% increase in volume</i>
1991	13,200	47,610	\$ 3.61	
1992	158,027	554,045	\$ 3.51	1097%
1993	271,632	837,383	\$ 3.08	72%
1994	411,454	2,101,553	\$ 5.11	51%
1995	1,454,250	4,296,985	\$ 2.95	253%
1996	1,109,394	3,332,376	\$ 3.00	-24%
1997	1,158,065	2,557,359	\$ 2.21	4%
1998	2,526,693	9,845,792	\$ 3.90	118%
1999	2,433,655	8,766,712	\$ 3.60	-4%
2000	5,157,988	17,158,462	\$ 3.33	112%
2001	10,283,644	18,770,676	\$ 1.83	99%

Table 4-B

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Chapter 5 - Office of Fisheries Development - Economic Development Mission

As defined by the Alaska State Legislature, through The Missions and Measures Act of 2001, the Division of Community & Business Development works to promote independent local governments and job growth. The Division has a number of programs designed to meet this mission by enhancing business development. The Office of Fisheries Development (OFD) has established several broad economic development principles to guide its programs and practices. These include:

- Industry & economic analysis
- Export-led development
- Growth industry focus
- Cluster-Based Development
- Business environment review
- New Product development
- Entrepreneur identification
- Networks, technology and small business development

Each of these project categories is further outlined below as they related to fisheries industry development. A related example is cited.

Industry & Economic Analysis

Economic performance can be measured through a number of benchmarks and indicators. As part of the Division of Community and Business Development, OFD assists in maintaining current economic information through the Alaska Economic Information System (AEIS). Research and economic analysis is key to many other decision points. OFD will seek to understand supposed problem areas and facilitate research to assist in decision making.

Related example: OFD is proposing a study on Alaska's quality-related infrastructure. The study will determine, based on industry accepted guidelines, requirements for capital, changes to harvest management and changes to handling practices for all of Alaska's regions. This will assist policy makers by defining a logistics plan – and a price tag - for implementing certain levels of quality.

Export-Led Development

Increased and appropriate specialization by Alaska's manufacturing base is essential to maintaining business competitiveness and increasing the value of Alaska's exports. Increased manufacturing specialization requires improved labor productivity and higher skills, which in turn leads to higher earnings. Nowhere is this needed more than in the seafood industry. Export-led development means responding to the needs of our market, – both domestic and overseas market - while pushing the level of Alaska manufacturing to the next appropriate level.

Related example: OFD works with fishermen, processors, researchers and marketing professionals to raise quality standards for Alaska seafood. Examples of export-led development would be the establishment of a Quality Assurance Programs, or promotion of Ice Production Infrastructure in key fisheries like Bristol Bay, Kodiak and Cook Inlet. Supporting application of new product technology may also apply.

Growth Industry Focus

OFD reviews industry trends to identify potential growth industry opportunities for Alaskans. It is important to understand that some of Alaska's greatest potential for fishery industry economic development lies in capturing already developed industry sectors with low levels of Alaska resident involvement. Once opportunities have been identified, the Division works with industry and local government, to encourage greater growth.

Related Example: In the budding shellfish aquaculture industry, OFD works with shellfish farmers, University professionals, and local economic developers, to provide technical and financial assistance to new entrants. The Office also works with communities to identify opportunities with this industry.

Cluster Based Development

It has been put forward that the most competitive industries in our world tend to develop in regional clusters. Examples may be found in any number of industries. The development of these super competitive industries is based on four areas, which include: factor conditions, the demand of the home market, the rivalry structure between the firms, and network of suppliers and interaction within a region. In successful industries, these areas come together in such a way that fosters competition that leads to innovation which leads to increased productivity. Under this theory, government has an important, albeit limited, role. There are specific actions governments pursue – all of which support the premise of strengthening the four areas listed above.

Related Example: OFD conducts competitive marketing grant programs. To meet the tenets of cluster-based development, grant criteria requires applicants to produce Premium or Grade A quality salmon products.

Business Environment

A key component of attracting and encouraging investment is to have a stable, progressive, “user friendly” business environment. Government plays a large role in fulfilling that need. The Division works to create a positive investment environment through a number of programs.

Related Example: As applicable, OFD reviews the effect of Alaska's industrial tax structures on the fishing & seafood industry to ensure they contribute to overall policy objectives.

New Product Development

One method of encouraging economic development is to identify new products that appear to be in the product development or growth stage, and to identify new or alternative processes that can revitalize existing product forms. OFD will seek to identify and foster such opportunities through research, literature review and outreach to industry sources, developing funding resources, disseminating information, and encouraging industry-led product R&D.

Related Example: OFD will prepare mini-reviews of various seafood products to determine the state of development the products are in. Those that have reached a mature or declining point in their life cycle will require minimal attention. Those products identified in the product development or growth stage, and appear to put the fishery resource to a higher and greater use will be promoted through taxation incentives, grant funds and other means of support.

Entrepreneur Identification

OFD identifies entrepreneurs who demonstrate success in innovative business ventures. The power of innovation is vital to making a strong economy. Innovative entrepreneurs may require technical and financial assistance to achieve economic success. The Office focuses on these individuals and works to assure that they have an opportunity to flourish.

Related Example: The Office establishes grant programs that provide marketing funds for high-risk ventures.

Networks, Technology & Small Business Development

To enable success in our global world, manufacturers are required to balance flexibility with specialization. One method to accomplish this is to assist in developing buyer-supplier networks, support research and development efforts, collaborate extensively with researchers, and support small business development. The Division pursues many projects, often at an informal level, that pertain to this effort.

Related Example: The Office promotes industry/R&D collaborative projects in an effort to find commercial application of new technologies.

Areas Where the State Can Exercise Strong Influence or Direct Control

Focus on Support Industry & Services

Assay Existing Support Industries. Most fishery supply businesses in the Puget Sound area are primarily supported by Alaska fisheries. A rough estimate of their dependence on Alaska related business can be gauged by the comparative fishery economic output of Pacific Northwest versus Alaska waters. On that basis 90+% of Puget Sound fisheries support business is Alaska dependent.

- Actively recruit Lower '48 businesses to move to Alaska. Provide targeted information / Coordinate with local development agencies.

Government / Management

Task Force and others must avoid “one time fix” mentality. We must build in ongoing assessment processes, embrace change, continually rate ourselves on progress.

- Apply Total Quality Management (TQM) principles to looking at government management inputs fishery by fishery. Sector by sector performance analysis of government programs / Does what we are doing optimize the value of the fishery.
- Perform economic performance examinations of each fishery.
- End Alaska antagonism and policy discrimination toward key industry sectors like offshore pollock, catcher processors at all levels, and IFQs.
- Capture as much as possible of the federal research & management structure in Seattle and bring it to Alaska – NOAA Sand Point, NOAA research fleet, etc. There are compelling arguments in favor and these are good jobs for Alaska.
- Over time, work to eliminate non-Alaska representation on the North Pacific Fishery Management Council – this is somewhat linked to getting many of the effected businesses to relocate here. The NPFMC is the only one of the 13 regional councils to have representation from states not adjacent to the EEZ sector governed. Example. Fishermen from Cape May NJ regularly fish in New England. Their state does not appoint representation to the New England FMC.

Education

Establish High School and University fisheries curricula that look at participation in all sectors – from harvesting to marketing, to technology, to government.

- Support efforts like the Alaska Process Industry Careers Consortium (APICC) to include discussions between the University of Alaska-Fairbanks, School of Fisheries and Ocean Science (and other academic institutions and related entities) and member of the seafood fishing industry. These efforts will work to establish joint projects for basic research and development and increase the labor pool available for fishing industry professions.